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SUBJECT: SINGAPORE'S FY2006 BUDGET PRIMES PUMP FOR GENERAL  
ELECTION

¶1. Summary. With an eye on anticipated but still not officially announced general elections, Singapore's FY2006 budget offers a S\$2.6 billion (US\$1.6 billion) "Progress Package" targeting primarily lower income groups. The budget also includes the usual array of fiscal incentives for specific industries, including financial services, maritime, and logistics as well sectors dependent on R&D and intellectual property. For the fifth consecutive year, the government will run a primary deficit (fiscal deficit minus interest payments and special transfers); most analysts agree, however, that the government's revenue assumptions are conservative and that its forecasted "largest deficit in 20 years" of S\$2.9 billion (US\$1.8 billion) is overstated (Singapore does not, for example, include revenues from land sales -- projected to reach S\$4 billion or US\$2.5 billion in FY2006 -- or certain investment income from the Monetary Authority.) As in previous budgets, defense (32.8%) and education (22.8%) are the largest components of government spending.

Detailed information concerning Singapore's FY2006 budget can be found at:

End Summary.

(Note: Exchange Rate - US\$1 = S\$1.63)

Election Sweeteners  
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¶2. Singapore's FY2006 budget (April 1, 2006 - March 31, 2007), approved by Parliament March 9, appears tailor-made for an election year. The government has yet to officially announce a date for general elections, but the combination of the budget's "Progress Package" that extends a lending hand to low income earners, and daily reporting of party platforms and speculation about voter precinct redistricting in the government-controlled media evidence imminent elections. The Progress Package, part of a larger "special transfer" of S\$3.6 billion (US\$2.2 billion), includes a S\$1.4 billion (US\$860 million) "growth dividend" for all citizens, specific bonuses for workers aged 40 and above and earning up to S\$1,500 (US\$920) per month, and a one-time payment to individuals who have or are currently performing national service (the majority of Singapore's adult male citizens).

¶3. This represents the government's greatest largesse since it allocated S\$5.27 billion (US\$3.2 billion) during the 2002 economic downturn. In the run-up to the last general election in 2001, the government provided a similar, albeit more modest, package worth S\$1.81 billion (US\$1.1 billion). Many analysts believe that, currying favor with voters aside, this year's budget reflects a growing concern about Singapore's widening income gap. According to government estimates, household incomes of Singapore's bottom 20 percent declined by an average 3.2% annually from 1998-2003; that of the top 20 percent increased 2.2% annually during the same period (for more information

concerning trends in household income and expenditures, see  
) .

#### Fiscal Incentives

14. The FY2006 budget provides a number of fiscal incentives for industry, including:

##### -- Enhancing Manufacturing, Financial, Maritime, and Logistics Services

A wide range of incentives for these sectors include General Services Tax (GST) exemptions for certain tools used in manufacturing goods for export; and tax concessions and exemptions targeting asset management, capital markets, treasury activities, ship financing and management, warehousing, and third-party logistics providers. Tax concessions will similarly be extended to the industrial design, and interactive and digital media industries.

##### -- R&D Investment

The government will allocate S\$5 billion (US\$3.1 billion) over the next five years to establish an R&D Trust Fund. The Fund is part of a strategic goal to increase Singapore's R&D gross expenditure, from 2.3% of GDP in 2004 to 3% by 2010.

##### -- Education

As part of its ongoing efforts to develop Singapore into an education hub, the FY2006 budget aims to increase funding of public universities from S\$1.24 billion (US\$800 million) to S\$1.9 billion (US\$1.2 billion) annually by 2010, equivalent to about 1% of GDP.

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##### -- Tax Competitiveness

In addition to a further one percentage-point reduction this year in the personal income tax rate, bringing it in line with the corporate income tax rate of 20%, the budget calls for fine-tuning tax exemptions for foreign-sourced income tax, stock options, share-based compensation, and incentives for limited liability partnerships.

#### Budget Deficit

15. The government is projecting a S\$2.86 billion (US\$1.8 billion) deficit in FY2006, equivalent to 1.6% of 2005 nominal GDP:

	FY2006 Budget ----- (S\$ billion)	FY2005 Revised -----	(%) Change over FY2005 Revised -----
Revenue	28.96	27.48	5.4
Expenditure	30.62	28.85	6.1
Primary Deficit	(1.66)	(1.37)	
Less: Special Transfers	3.59	0.87	310.2
Add: Net Investment Income	2.39	2.67	(10.6)
Surplus/(Deficit)	(2.86)	0.43	

#### Revenues

16. The government's projected operating revenue of S\$28.96

billion (US\$17.8 billion) assumes real GDP growth in 2006 of 4-6%; tax revenue will account for approximately 90% of the total. Tax revenue as a percentage of GDP has fallen from 13.6% in 2004 to 12.2% in 2005. Contributions from GST have increased in proportion to total operating revenue from 8.3% in 2002 to 13.5% in 2005. For the first time in five years, the government did not increase tobacco and alcohol duties.

Table: Estimated Tax Revenue for FY 2006

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(S\$ billion)

	Budget FY2006	% Share	Revised FY2005	% Share
Direct Tax	14.17	56.1	13.26	55.8
Corporate	7.68	30.4	7.10	29.9
Personal	4.60	18.2	4.30	18.1
Assets	1.89	7.5	1.86	7.8
Indirect Tax	11.10	43.9	10.52	44.2
Goods & Services Tax	3.75	14.8	3.60	15.1
Customs & Excise Tax	2.01	8.0	2.02	8.4
Motor Vehicle Tax	1.78	7.0	1.47	6.2
Betting Tax	1.50	5.9	1.49	6.3
Others	2.06	8.2	1.94	8.2
Total	25.80	100.0	23.78	100.0

#### Expenditures

17. Total expenditures for FY2006 are estimated to increase 6.1% over FY2005 to S\$30.6 billion (US\$18.8 billion). Spending is equivalent to 16% of nominal 2005 GDP, in line with official guidelines to keep expenditures below 20% of GDP. Major allocations go to defense (32.8% of total expenditures or 5.2% of 2005 nominal GDP), education (22.8% or 3.6% of GDP), home affairs (7.9% or 1.2% of GDP), health (6.6% or 1.0% of GDP), and transport (6.0% or 0.9% of GDP).

Table: FY2006 Expenditure by Sector and Ministry

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(S\$ billion)

	FY2006	% Share	% Change from FY2005
TOTAL EXPENDITURE	30.6	100.0	6.1
Social Development	12.8	41.8	8.1
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Education	7.0	22.8	14.1
Health	2.0	6.6	11.5
National Development	1.2	4.1	-8.3
Environment	1.1	3.4	-11.9
Community Development & Sports	1.0	3.4	9.5
Information, Communications & the Arts	0.5	1.6	11.4
Security/External Relations	12.8	41.8	8.1
Defense	10.1	32.8	8.5
Home Affairs	2.4	7.9	6.4
Foreign Affairs	0.3	1.1	7.0
Economic Development	3.8	12.3	3.0
Transport	1.8	6.0	-2.1
Trade & Industry	1.6	5.3	6.5
Manpower	0.3	0.8	17.4
Info-Communications Technology	0.1	0.2	24.4

Government Administration	1.2	4.0	-16.6
Finance	0.6	1.9	-22.0
Organs of State	0.2	0.8	1.1
Prime Minister's Office	0.2	0.7	12.1
Law	0.2	0.7	-34.8

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